



THE MACD INDICATOR

"MACD stands for Moving Average Convergence Divergence and tracks two moving averages of a stock's closing price."

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By:

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The MACD indicator used to identify trends in the stock's movement. MACD stands for Moving Average Convergence Divergence and tracks two moving averages of a stock's closing price. Exponential averages are used because they place a higher weight on the more recent data.

The components of the MACD indicator are:

- *The MACD line:* A 12-**period** exponential moving average (EMA) minus a 26-**period** EMA
- *The signal line:* A 9-**day** EMA of the MACD line (from above calculation)

When the MACD line crosses over the signal line it indicates a good time to buy.

When the MACD line crosses below its signal line it is a good time to sell or short the stock.

The MACD indicator also often shows a histogram. This is meant to provide information on how close the MACD and signal line are to crossing over. The histogram will move over the zero midline when the two crossover.

Notably, the MACD indicator is sometimes used in conjunction with the Relative Strength Indicator (RSI). The RSI shows whether the stock is overbought (may have a downward movement) or oversold in relation to its price.

